

BELDING HOUSING COMMISSION  
BELDING, MICHIGAN

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005  
AND  
REPORTS ON INTERNAL CONTROL AND  
COMPLIANCE

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Belding Housing Commission</b>	County
Audit Date <b>6/30/05</b>	Opinion Date <b>11/7/05</b>	Date Accountant Report Submitted to State: <b>12/17/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Barry E. Gaudette, CPA, PC</b>			
Street Address <b>1107 E. Eighth Street</b>	City <b>Traverse City</b>	State <b>MI</b>	ZIP <b>49686</b>
Accountant Signature <i>Barry E. Gaudette, CPA</i>		Date <b>12/17/05</b>	

BELDING HOUSING COMMISSION  
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INTRODUCTION

**Barry E. Gaudette, CPA, P.C.**

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street  
Traverse City, Michigan 49686  
(231) 946-8930  
Fax (231) 946-1377

***Independent Auditor's Report***

Board of Commissioners  
Belding Housing Commission  
Belding, Michigan

I have audited the accompanying financial statements of the business-type activities of the Belding Housing Commission, Michigan, a component unit of the City of Belding, as of and for the year ended June 30, 2005, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Belding Housing Commission, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Belding Housing Commission  
Independent Auditor's Report  
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated November 7, 2005, on my consideration of Belding Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be in considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on page 3 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming an opinion on the financial statements that comprise Belding Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Barry E. Audette, CPA, PC*

November 7, 2005

BELDING HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)  
June 30, 2005  
=====

Belding Housing Commission, created in 1951, by the City of Belding provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

**Financial Highlights**

The financial statements for Belding Housing Commission consists of two programs. The first is owned housing, consisting of 140 units of public housing and the second is the capital funding program. Belding Housing Commission had total revenues of \$628,310 that includes \$346,739 in rental payments and \$264,605 in federal assistance. Total operating expenses were \$766,312, that includes \$264,655 in administrative expenses, \$178,125 in ordinary maintenance expenses, and \$169,489 in depreciation expense. Total revenues decreased by \$60,962 from the prior year and operating expenses increased by \$46,881 over the prior year for a net decrease of \$107,843, due to increases in administrative, utilities, ordinary maintenance and operation expenses, and depreciation.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent year by \$3,421,841. The Housing Commission's total net assets decreased by \$138,002 from the prior year. The decrease is attributable in part to depreciation expense increasing by \$9,192 over the prior year and an expenditure for a consultant.

Total assets of the Housing Commission were \$3,520,351 including \$295,485 of current assets and \$3,224,866 of net property, plant, and equipment assets. The Housing Commission had current liabilities of \$98,510. Assets decreased, in part, by \$140,204 from the prior year due to the depreciation expense of \$169,489

The financial condition of the Housing Commission has not changed materially from the prior year, but the Net Assets did decrease by \$140,204 from the prior year.

BELDING HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)  
(CONTINUED)  
June 30, 2005  
=====

**Overview of the Financial Statements**

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- \* Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- \* Statement of Activities - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital c contributions.
- \* Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

**Commission's current position**

Belding Housing Commission is investigating the possibility of bringing assisted-living type services into one of its elderly developments. The decision to continue with this endeavor depends on gaining recognition for the need for the services, and obtaining the necessary financial support from the state and other potential funding sources. The need for services to the frail elderly population is great, and it is growing. It is our intention to continue educating our communities and elected officials about this need, and to convince the state that a partnership between federally-subsidized housing and state-funded services will assist in allowing our population to age in place. It is our belief that this partnership will provide both humanitarian benefits for residents, and financial benefits to the overly burdened state Medicaid budget.

Funding levels for operations and capital improvements are expected to remain at current levels, comparable to the past few years. We will continue to provide safe, affordable housing to eligible persons of low income, and will pursue capital improvements in accordance with our five-year and annual plan. Federal Fiscal Year 2005 Capital funds are designated for replacement of the existing maintenance garage.

Questions and comments regarding this Management Discussion and Analysis may be directed to:

Sharon L. Carlson, Executive Director  
41, Belhaven Street, Belding, MI 48809



BELDING HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)  
(CONTINUED)  
June 30, 2005  
=====

**Financial Analysis of the Housing Commission**

The following condensed statement of net assets show a summary of changes for the years ended June 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>Net Change</u>
Current assets	\$ 295,485	\$ 290,173	\$ 5,312
Property and equipment	<u>3,224,866</u>	<u>3,370,382</u>	<u>( 145,516)</u>
Total assets	<u>\$3,520,351</u>	<u>\$3,660,555</u>	<u>\$ ( 140,204)</u>
Current liabilities	<u>\$ 98,510</u>	<u>\$ 100,712</u>	<u>\$ ( 2,202)</u>
Total liabilities	<u>98,510</u>	<u>100,712</u>	<u>( 2,202)</u>
Net assets:			
Invested in capital assets	3,224,866	3,370,382	( 145,516)
Unrestricted net assets	<u>196,975</u>	<u>189,461</u>	<u>7,514</u>
Total net assets	<u>3,421,841</u>	<u>3,559,843</u>	<u>( 138,002)</u>
Total liabilities and net assets	<u>\$3,520,351</u>	<u>\$3,660,555</u>	<u>\$ ( 140,204)</u>

BELDING HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)  
(CONTINUED)  
June 30, 2005  
=====

**Financial Analysis of the Housing Commission (continued)**

The following table summarizes the statement of activities of the Housing Commission for the years ended June 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>Net Change</u>
<b>Operating revenues:</b>			
Dwelling rent	\$ 346,739	\$ 343,002	\$ 3,737
Nondwelling rent		12	( 12)
Total operating revenues	<u>346,739</u>	<u>343,014</u>	<u>3,725</u>
<b>Operating expenses:</b>			
Administration	264,655	222,176	42,479
Tenant services	5,290	6,780	( 1,490)
Utilities	90,370	82,925	7,445
Ordinary maintenance and operation	178,125	167,108	11,017
General expenses	58,383	73,231	( 14,848)
Extraordinary maintenance		6,914	( 6,914)
Depreciation	<u>169,489</u>	<u>160,297</u>	<u>9,192</u>
Total operating expenses	<u>766,312</u>	<u>719,431</u>	<u>46,881</u>
Operating income(loss)	<u>( 419,573)</u>	<u>( 376,417)</u>	<u>( 43,156)</u>
<b>Non-operating revenue:</b>			
Interest income	3,254	2,566	688
Other income	13,682	12,328	1,354
Gain on sale of fixed assets	30		30
Operating grants	264,605	186,364	78,241
Capital grants	<u>145,000</u>	<u>145,000</u>	<u>( 145,000)</u>
Total nonoperating revenue	<u>281,571</u>	<u>346,258</u>	<u>( 64,687)</u>
<b>Change in Net Assets</b>	<u><u>\$ ( 138,002)</u></u>	<u><u>\$ ( 30,159)</u></u>	<u><u>\$ ( 107,843)</u></u>

FINANCIAL STATEMENTS

BELDING HOUSING COMMISSION  
STATEMENT OF NET ASSETS  
June 30, 2005  
=====

ASSETS

Current Assets:

Cash	\$ 158,489
Accounts receivable-dwelling rents	1,051
Investments-unrestricted	115,000
Prepaid expenses	<u>20,945</u>

Total Current Assets	<u>295,485</u>
----------------------	----------------

Property and Equipment:

Land	314,245
Buildings	5,165,694
Equipment	<u>277,026</u>
	5,756,965
Less: accumulated depreciation	<u>( 2,532,099)</u>

Net Property and Equipment	<u>3,224,866</u>
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Total Assets	<u>\$ 3,520,351</u>
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See notes to financial statements

BELDING HOUSING COMMISSION  
STATEMENT OF NET ASSETS (CONTINUED)  
June 30, 2005  
=====

**LIABILITIES and NET ASSETS**

Current Liabilities:	
Accounts payable	\$ 61,082
Tenant security deposit liability	34,479
Deferred revenues	<u>2,949</u>
Total Current Liabilities	<u>98,510</u>
Total Liabilities	<u>98,510</u>
Net Assets:	
Invested in capital assets	3,224,866
Unrestricted net assets	<u>196,975</u>
Total Net Assets	<u>3,421,841</u>
Total Liabilities and Net Assets	<u><u>\$ 3,520,351</u></u>

See notes to financial statements

BELDING HOUSING COMMISSION  
**STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2005  
=====

**OPERATING REVENUES:**

Dwelling rent	\$ 346,739
Non-dwelling rent	<u>                    </u>

Total operating revenues	<u>346,739</u>
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**OPERATING EXPENSES:**

Administration	264,655
Tenant services	5,290
Utilities	90,370
Ordinary maintenance and operation	178,125
General expenses	58,383
Depreciation	<u>169,489</u>

Total operating expenses	<u>766,312</u>
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Operating income(loss)	<u>( 419,573)</u>
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**NONOPERATING REVENUES:**

Investment interest income	3,254
Other income	13,682
Gain on sale of fixed assets	30
Operating grants	<u>264,605</u>

Total nonoperating revenues	<u>281,571</u>
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Change in net assets	( 138,002)
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Prior period adjustments, equity transfers and correction of errors	( 7,276)
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Net assets, beginning	<u>3,567,119</u>
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Net assets, ending	<u><u>\$ 3,421,841</u></u>
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See notes to financial statements

BELDING HOUSING COMMISSION  
STATEMENT OF CASH FLOWS  
Year Ended June 30, 2005  
=====

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from dwelling and nondwelling rents	\$ 349,078
Cash payments to other suppliers of goods and services	( 251,202)
Cash payments to employees for services	( 319,270)
Cash payments for in lieu of taxes	<u>( 25,444)</u>
Net cash (used) by operating activities	<u>( 246,838)</u>

**CASH FLOWS FROM NONCAPITAL**

**FINANCING ACTIVITIES:**

Tenant security deposits	3,268
Operating grants	264,605
Other revenue	<u>13,682</u>

Net cash provided by noncapital financing activities	<u>281,555</u>
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**CASH FLOWS FROM CAPITAL AND RELATED**

**FINANCING ACTIVITIES:**

Gain on sale of fixed assets	30
Payments for capital acquisitions	<u>( 26,950)</u>

Net cash (used) by capital and related financing activities	<u>( 26,920)</u>
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**CASH FLOWS FROM INVESTING ACTIVITIES:**

Receipts of interest and dividends	<u>3,254</u>
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Net cash provided by investing activities	<u>3,254</u>
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Net increase(decrease) in cash	11,051
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Cash, beginning	<u>147,438</u>
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Cash, ending	<u><u>\$ 158,489</u></u>
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BELDING HOUSING COMMISSION  
STATEMENT OF CASH FLOWS (CONTINUED)  
Year Ended June 30, 2005  
=====

RECONCILIATION OF CASH AND CASH  
EQUIVALENTS PER STATEMENT OF CASH  
FLOWS TO THE BALANCE SHEET:

Cash	\$ 158,489
Restricted cash	<u>                    </u>
Cash and cash equivalents per balance sheet	<u>\$ 158,489</u>

SCHEDULE RECONCILING OPERATING INCOME  
TO NET CASH FLOW FROM OPERATING  
ACTIVITIES:

Operating income(loss)	\$( 419,573)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	169,489
Adjustments	( 4,299)
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	2,695
Prepaid expenses	3,044
Increase (decrease) in liabilities:	
Accounts payable	26,511
Accrued wages/payroll taxes	( 23,986)
Accrued payments in lieu of taxes	( 363)
Deferred revenues	<u>( 356)</u>
Net cash (used) by operating activities	<u>\$( 246,838)</u>

See notes to financial statements



BELDING HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005  
=====

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Belding Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

**The Reporting Entity**

Belding Housing Commission is a component unit of the City of Belding, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Belding on April 3, 1951, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Belding Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

**Grants and Other Intergovernmental Revenues**

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3006, the Housing Commission constructed, maintains and operates 140 units of subsidized housing in the City of Belding, Michigan.

**Fund Financial Statements**

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets, Statement of Activities and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

**Fund Accounting**

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities,

equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

### Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the statement of net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net assets components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Belding Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds and to the proprietary funds of its component units.

### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

### Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

## **Budgets and Budgetary Accounting**

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

## **Receivables**

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

## **Short-term Interfund Receivables/Payables**

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

## **Fixed Asset Capitalization**

Fixed assets with a cost to acquire or construct of \$25 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings	40 years
Furniture, equipment and machinery	5 - 10 years
Building improvements	10 years

## **Net Assets**

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post FY 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

## **Operating Revenues and Expenses**

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts

expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested in capital assets rather than unrestricted net assets.

#### Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

#### Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- \* Vacation leave, an employee who is permanently separated shall be paid, in a lump sum at his/her current rate of pay for all unused vacation leave prorated to the date of separation. Vacation leave not taken by employees may not be accumulated to exceed the number of weeks earned in one year, unless otherwise approved by the Commission. Employees are encouraged to take annual vacation leave to the extent that it is earned.
- \* Sick leave days are not accruable since the Commission provides short and long term disability insurance. Employees may be paid 50% for sick leave not taken during a calendar year at his/her regular rate of pay as an incentive to use sick leave judiciously.
- \* Personal leave, each regular full-time employee shall be allowed two(2) personal leave days per year.

The amount of accumulated benefits at June 30, 2005, was minimal, and is not recorded as a liability in the applicable funds.

#### Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

#### Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

## NOTE 2: DEPOSITS, INVESTMENTS AND CREDIT RISK

The Housing Commission maintains cash and investment accounts in the Low Rent Program.

### Deposits

At year-end, the carrying amount of the Housing Commission's deposits were \$158,289 and the bank balance was \$211,717 of which \$211,717 was covered by federal depository insurance. The Housing Commission has \$100 in petty cash and \$100 in a change fund.

### Investments

The Housing Commission had the following investments at the following banks as of June 30, 2005:

Independent Bank-Certificate of deposit (#70050)	\$ 25,000
ICNB -Certificate of deposit (#82471)	15,000
Chemical Bank -Certificate of deposit (#6251001948)	20,000
Chemical Bank -Certificate of deposit (#6251001949)	25,000
Chemical Bank -Certificate of deposit (#6251001961)	<u>30,000</u>
	<u>\$ 115,000</u>

*Interest Rate Risk* - The Housing Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk* - The Housing Commission's investment policy approves the following securities and deposit accounts: U.S. Treasury bills, U.S. Treasury certificates, notes and bonds, certificate of deposits, commercial business savings accounts, money market accounts, obligations which are lawful investments for fiduciary and trust funds under the jurisdiction of the United States Government, Series E savings bonds and Series H savings bonds.

The Housing Commission shall deposit excess monies in the general fund and all other operating fund accounts in time, savings, or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depository of trust funds of National Banks, respectively.

All excess monies over the insured limits of the financial institution or banks, the Housing Commission shall obtain collateralization of excess funds at 100% of the principal value. Such collateralization shall be in the form of U.S. Treasury Notes or Bonds in the name of the Housing Commission held in trust by the financial institution or bank. The Housing Commission may choose collateralization in the following form and percentages:

- |    |                                  |   |          |
|----|----------------------------------|---|----------|
| 1. | U.S. Treasury Notes              | - | 100%; or |
| 2. | U.S. Treasury Notes and/or Bonds | - | 75% and  |
| 3. | Mortgage Backed Securities       | - | 25%      |

In any such case the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the following collateralization at a minimum once every quarter to the Housing Commission.

The Housing Commission has no investment policy that would further limit its investment choices.

*Concentration of Credit Risk* - The Housing Commission places no limit on the amount the Housing Commission may invest in any one issuer. All of the Housing Commission's investments are reported in the Enterprise Fund.

A reconciliation of cash as shown on the combined statement of net assets follows:

Cash on hand	\$	200
Carrying amount of deposits		158,289
Investments		<u>115,000</u>
Total	\$	<u>273,489</u>
Cash and cash equivalents:		
Enterprise activities	\$	326,917
Enterprise activities - checks written in excess of deposits		<u>( 53,428)</u>
Total	\$	<u>273,489</u>

### NOTE 3: RECEIVABLES AND PAYABLES

#### Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At June 30, 2005, the receivables were \$1,051 with \$-0- estimated as uncollectible. Bad debt expense was \$1,715.

#### Accounts Receivables - HUD

Amounts due from HUD represents funding due the Housing Commission for actual expenses for the programs financed. There weren't any amounts due from HUD as of June 30, 2005.

#### Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs". There were no interfund receivables or payables as of June 30, 2005.

Individual fund operating transfers during the fiscal year are as follows:

<u>Receiving Fund</u>	<u>Paying Fund</u>	<u>Amount</u>
Low Rent Program	Capital Fund Program	<u>\$118,030</u>

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Balance</u> <u>06/30/04</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>06/30/05</u>
<b>Low Rent Program</b>				
Land	\$ 314,245	\$	\$	\$ 314,245
Buildings	5,020,694	145,000		5,165,694
Furniture, equip. & machinery - dwellings	69,641	10,018		79,659
Furniture, equip. & machinery - administration	<u>180,435</u>	<u>16,932</u>		<u>197,367</u>
	5,585,015	<u>\$ 171,950</u>	<u>\$</u>	5,756,965
Less accumulated depreciation	( <u>2,362,610</u> )	<u>\$ (169,489)</u>	<u>\$</u>	( <u>2,532,099</u> )
Total	<u>\$3,222,405</u>			<u>\$3,224,866</u>
 <b>Capital Fund Program</b>				
Building improvements	<u>\$ 147,977</u>	<u>\$</u>	<u>\$ 147,977</u>	<u>\$</u>
 <b>Combined Totals</b>				<u>\$3,224,866</u>

**NOTE 5: INVESTED IN CAPITAL ASSETS**

The following is a summary of the activity in the Invested in Capital Assets account:

	<u>Invested in</u> <u>Capital Assets</u>
Balance, beginning (contributed capital)	\$ 3,370,382
Investment in fixed assets, net of depreciation paid for from operations net of depreciation, not included in contributed capital	<u>( 145,516 )</u>
Balance, ending	<u>\$ 3,224,866</u>

**NOTE 6: POST EMPLOYMENT BENEFITS**

The Housing Commission contributes to the City of Belding Retirement Plan, a defined contribution plan administered by Massachusetts Mutual Insurance Company. The Housing Commission contributes an amount equal to 9% of each employee's earnings to the plan. Although no employee contributions are required, voluntary contributions of up to an additional 10% of earnings are allowed. The Housing Commission contributed a total of \$17,124.75. Further details are available from the City of Belding.

**NOTE 7: CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS**

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

**NOTE 8: RISK MANAGEMENT AND LITIGATION**

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

**NOTE 9: PRIOR PERIOD ADJUSTMENTS, EQUITY TRANSFERS AND CORRECTION OF ERRORS**

Low Rent Program

Adjustment of prior year accruals	\$ ( 4,299)
Close out of 2002 cfp	<u>145,000</u>
	<u>\$ 140,701</u>

Capital Fund Program

Reclass of prior year fixed asset to soft cost	\$ ( 2,977)
Transfer 2002 cfp to low rent	<u>(145,000)</u>
	<u>\$ (147,977)</u>



**NOTE 10: SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The Housing Commission maintains one Enterprise Fund that includes two separate programs which provide housing assistance and grant programs. Segment information for the year ended June 30, 2005, was as follows:

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>
<b>Condensed Statement of Net Assets</b>		
Current assets	\$ 295,485	\$
Property and equipment	3,224,866	
Total assets	<u>\$ 3,520,351</u>	<u>\$</u>
Current liabilities	<u>\$ 98,510</u>	<u>\$</u>
Net assets:		
Invested in capital assets	3,224,866	
Unrestricted net assets	196,975	
Total net assets	<u>3,421,841</u>	
Total liabilities and net assets	<u>\$ 3,520,351</u>	<u>\$</u>
<b>Condensed Statement of Activities</b>		
Dwelling rents	\$ 346,739	\$
Depreciation	( 169,489)	
Other operating expenses	( 596,823)	
Operating(loss)	( 419,573)	
Nonoperating revenues:		
Investment interest income	3,254	
Other income	13,682	
Gain on sale of fixed assets	30	
Operating transfers in (out)	118,030	( 118,030)
Operating grants	<u>146,575</u>	<u>118,030</u>
Change in net assets	( 138,002)	
Prior period adjustments, equity transfers and correction of errors	140,701	( 147,977)
Beginning net assets	<u>3,419,142</u>	<u>147,977</u>
Ending net assets	<u>\$ 3,421,841</u>	<u>\$</u>
<b>Condensed Statement of Cash Flows</b>		
Net cash provided(used) by:		
Operating activities	\$ ( 246,838)	\$
Noncapital financing activities	281,555	
Capital and related financing activities	( 26,920)	
Investing activities	<u>3,254</u>	
Net increase(decrease)	11,051	
Beginning cash and cash equivalents	<u>147,438</u>	
Ending cash and cash equivalents	<u>\$ 158,489</u>	<u>\$</u>

SUPPLEMENTARY INFORMATION

BELDING HOUSING COMMISSION  
**COMBINING STATEMENT OF NET ASSETS**  
June 30, 2005  
=====

C-3006	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

**ASSETS**

Current assets:

Cash	\$ 158,489	\$
Accounts receivable-dwelling rents	1,051	
Investments-unrestricted	115,000	
Prepaid expenses	<u>20,945</u>	<u>          </u>
Total current assets	<u>295,485</u>	<u>          </u>

Property and equipment:

Land	314,245	
Buildings	5,165,694	
Equipment	<u>277,026</u>	<u>          </u>
	5,756,965	
Less accumulated depreciation	<u>(2,532,099)</u>	<u>          </u>

Net property and  
equipment

<u>3,224,866</u>	<u>          </u>
------------------	-------------------

Total Assets

<u>\$3,520,351</u>	<u>\$          </u>
--------------------	---------------------

Totals

\$ 158,489  
1,051  
115,000  
20,945

295,485

314,245  
5,165,694  
277,026  
5,756,965  
( 2,532,099)

3,224,966

\$ 3,520,351

BELDING HOUSING COMMISSION  
**COMBINING STATEMENT OF NET ASSETS (CONTINUED)**  
 June 30, 2005

=====

C-3006	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

**LIABILITIES and NET ASSETS**

Current liabilities:		
Accounts payable	\$ 61,082	\$
Tenant security deposit liability	34,479	
Deferred revenues	<u>2,949</u>	<u>          </u>
Total current liabilities	<u>98,510</u>	<u>          </u>
 Total liabilities	 <u>98,510</u>	 <u>          </u>
 Net assets:		
Invested in capital assets	3,224,866	
Unrestricted net assets	<u>196,975</u>	<u>          </u>
Total net assets	<u>3,421,841</u>	<u>          </u>
Total Liabilities and Net Assets	<u>\$3,520,351</u>	<u>\$          </u>

Totals

\$ 61,082  
34,479  
2,949

98,510

98,510

3,224,866  
196,975

3,421,841

\$ 3,520,351

BELDING HOUSING COMMISSION  
**COMBINING STATEMENT OF ACTIVITIES**  
 Year Ended June 30, 2005  
 =====

	C-3006 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>OPERATING REVENUES:</b>		
Dwelling rent	\$ 346,739	\$
Nondwelling rent	<u>          </u>	<u>          </u>
Total operating revenues	<u>346,739</u>	<u>          </u>
<b>OPERATING EXPENSES:</b>		
Administration	264,655	
Tenant services	5,290	
Utilities	90,370	
Ordinary maintenance and operation	178,125	
General expenses	58,383	
Depreciation	<u>169,489</u>	<u>          </u>
Total operating expenses	<u>766,312</u>	<u>          </u>
Operating income(loss)	<u>( 419,573)</u>	<u>          </u>
<b>NONOPERATING REVENUES AND (EXPENSES):</b>		
Investment interest income	3,254	
Other income	13,682	
Gain on sale of fixed assets	30	
Operating grants	146,575	118,030
Operating transfers in (out)	<u>118,030</u>	<u>(118,030)</u>
Total nonoperating revenues (expenses)	<u>281,571</u>	<u>          </u>
Change in net assets	( 138,002)	
Prior period adjustments, equity transfers and correction of errors	140,701	(147,977)
Net assets, beginning	<u>3,419,142</u>	<u>147,977</u>
Net assets, ending	<u><u>\$3,421,841</u></u>	<u><u>\$</u></u>

	<u>Totals</u>
\$	346,739
	<u>346,739</u>
	264,655
	5,290
	90,370
	178,125
	58,383
	<u>169,489</u>
	<u>766,312</u>
(	<u>419,573)</u>
	3,254
	13,682
	30
	264,605
	<u>281,571</u>
(	138,002)
(	7,276)
	<u>3,567,119</u>
\$	<u><u>3,421,841</u></u>



BELDING HOUSING COMMISSION  
**COMBINING STATEMENT OF CASH FLOWS**  
 Year Ended June 30, 2005  
 =====

	C-3006 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from dwelling and nondwelling rents	\$ 349,078	\$
Cash payments to other suppliers of goods and services	( 251,202)	
Cash payments to employees for services	( 319,270)	
Cash payments for in lieu of taxes	<u>( 25,444)</u>	
Net cash (used) by operating activities	<u>( 246,838)</u>	
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Tenant security deposits	3,268	
Operating grants	146,575	118,030
Operating transfers in (out)	118,030	(118,030)
Other revenue	<u>13,682</u>	
Net cash provided by noncapital financing activities	<u>281,555</u>	
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Gain on sale of fixed assets	30	
Payments for capital acquisitions	<u>( 26,950)</u>	
Net cash (used) by capital and related financing activities	<u>( 26,920)</u>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Receipts of interest and dividends	<u>3,254</u>	
Net cash provided by investing activities	<u>3,254</u>	
Net increase(decrease) in cash	11,051	
Cash, beginning	<u>147,438</u>	
Cash, ending	<u><u>\$ 158,489</u></u>	<u><u>\$</u></u>

Totals

\$ 349,078

( 251,202)

( 319,270)

( 25,444)

( 246,838)

3,268

264,605

13,682

281,555

30

( 26,950)

( 26,920)

3,254

3,254

11,051

147,438

\$ 158,489

BELDING HOUSING COMMISSION  
**COMBINING STATEMENT OF CASH FLOWS (CONTINUED)**  
 Year Ended June 30, 2005  
 =====

C-3006	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

**RECONCILIATION OF CASH AND CASH  
 EQUIVALENTS PER STATEMENT OF  
 CASH FLOWS TO THE BALANCE SHEET:**

Cash	\$ 158,489	\$
Restricted cash	<u>                    </u>	<u>                    </u>
Cash and cash equivalents per balance sheet	<u>\$ 158,489</u>	<u>\$</u>

**SCHEDULE RECONCILING OPERATING INCOME  
 TO NET CASH FLOW FROM OPERATING  
 ACTIVITIES:**

Operating income(loss)	\$ ( 419,573)	\$
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	169,489	
Adjustments	( 4,299)	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	2,695	
Prepaid expenses	3,044	
Increase (decrease) in liabilities:		
Accounts payable	26,511	
Accrued wages/payroll taxes	( 23,986)	
Accrued payments in lieu of taxes	( 363)	
Deferred revenues	<u>( 356)</u>	<u>                    </u>
Net cash (used) by operating activities	<u>\$ ( 246,838)</u>	<u>\$</u>

Totals

\$ 158,489

\$ 158,489

\$ ( 419,573)

169,489  
( 4,299)

2,695  
3,044

26,511  
( 23,986)

( 363)  
( 356)

\$ ( 246,838)

BELDING HOUSING COMMISSION  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS**  
 Year Ended June 30, 2005

=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u>		
2005	Low Rent Public Housing	14.850	\$ 146,575
	<u>Public and Indian Housing</u> <u>Nonmajor - Direct Program</u>		
2005	Capital Fund Program	14.872	<u>118,030</u>
	Total		<u>\$ 264,605</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

**NOTE 1: Significant Accounting Policies**

The schedule of federal awards has been prepared on the  
 accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

BELDING HOUSING COMMISSION

**FINANCIAL DATA SCHEDULE**

Year Ended June 30, 2005

=====

FDS Line Item No.		C-3006 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	<b>ASSETS</b>		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 158,489	\$ _____
100	Total cash	<u>158,489</u>	_____
	Receivables:		
126	A/R-tenants-dwelling rents	<u>1,051</u>	_____
120	Total receivables, net of allowance for doubtful accounts	<u>1,051</u>	_____
	Current Investments:		
131	Investments-unrestricted	<u>115,000</u>	_____
	Other Current Assets:		
142	Prepaid expenses and other assets	<u>20,945</u>	_____
150	Total current assets	<u>295,485</u>	_____
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	314,245	
162	Buildings	5,165,694	
163	Furn, equip & mach-dwellings	79,659	
164	Furn, equip & mach-admin.	197,367	
166	Accumulated depreciation	<u>(2,532,099)</u>	_____
160	Total fixed assets, net of accumulated depreciation	<u>3,224,866</u>	_____
180	Total noncurrent assets	<u>3,224,866</u>	_____
190	Total Assets	<u>\$3,520,351</u>	\$ _____

Totals

\$ 158,489

158,489

1,051

1,051

115,000

20,945

295,485

314,245  
5,165,694  
79,659  
197,367  
( 2,532,099)

3,224,866

3,224,866

\$ 3,520,351

BELDING HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended June 30, 2005  
 =====

FDS Line Item No.		C-3006 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>LIABILITIES AND EQUITY/NET ASSETS</b>			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 36,001	\$
333	Accounts payable-other government	25,081	
341	Tenant security deposits	34,479	
342	Deferred revenues	<u>2,949</u>	
310	Total current liabilities	<u>98,510</u>	
300	Total liabilities	<u>98,510</u>	
	Equity:		
508.1	Invested in capital assets	<u>3,224,866</u>	
508	Total equity	3,224,866	
	Net Assets:		
512.1	Unrestricted net assets	<u>196,975</u>	
513	Total net assets	<u>3,421,841</u>	
600	Total Liabilities and Equity/Net Assets	<u>\$3,520,351</u>	<u>\$</u>



Totals

\$ 36,001

25,081

34,479

2,949

98,510

98,510

3,224,866

3,224,866

196,975

3,421,841

\$ 3,520,351

BELDING HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended June 30, 2005  
 =====

FDS Line Item No.		C-3006 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	<b>Revenue:</b>		
703	Net tenant rental revenue	\$ 346,739	\$
704	Tenant revenue-other		
705	Total tenant revenue	<u>346,739</u>	
706	HUD PHA grants	146,575	118,030
711	Investment income-unrestricted	3,254	
715	Other revenue	13,682	
716	Gain on sale of fixed assets	<u>30</u>	
700	Total revenue	<u>510,280</u>	<u>118,030</u>
	<b>Expenses:</b>		
	Administrative:		
911	Administrative salaries	121,240	
912	Auditing fees	3,900	
915	Employee benefit contributions-adm.	54,180	
916	Other operating-administrative	85,335	
	Tenant Services:		
921	Tenant services-salaries	3,625	
922	Relocation costs	1,665	
	Utilities:		
931	Water	17,519	
932	Electricity	17,691	
933	Gas	55,160	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	80,110	
942	Ordinary maint & oper-mat'ls & other	15,860	
943	Ordinary maint & oper-contract costs	46,026	
945	Employee benefit contributions- ordinary maintenance	36,129	
	General expenses:		
961	Insurance premiums	31,587	
963	Payments in lieu of taxes	25,081	
964	Bad debt-tenant rents	<u>1,715</u>	
969	Total operating expenses	<u>596,823</u>	
970	Excess operating revenue over operating expenses	<u>( 86,543)</u>	<u>118,030</u>

Totals

\$ 346,739

346,739

264,605

3,254

13,682

30

628,310

121,240

3,900

54,180

85,335

3,625

1,665

17,519

17,691

55,160

80,110

15,860

46,026

36,129

31,587

25,081

1,715

596,823

31,487

BELDING HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended June 30, 2005  
 =====

FDS Line Item No.		C-3006 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	<b>Expenses continued:</b>		
	Other expenses:		
974	Depreciation expense	<u>169,489</u>	<u>          </u>
	Total other expenses	<u>169,489</u>	<u>          </u>
900	Total expenses	<u>766,312</u>	<u>          </u>
	Excess (deficiency) of operating revenue over(under) expenses before other financing sources (uses)	( 256,032)	118,030
	<b>Other Financing Sources(Uses):</b>		
1001	Operating transfers in (out)	<u>118,030</u>	<u>(118,030)</u>
1000	Excess (deficiency) of operating revenue over(under) expenses	( 138,002)	
1104	Prior period adjustments, equity transfers and correction of errors	140,701	(147,977)
1103	Beginning Net Assets	<u>3,419,142</u>	<u>147,977</u>
	Ending Net Assets	<u>\$ 3,421,841</u>	<u>\$          </u>

Totals

169,489

169,489

766,312

( 138,002)

( 138,002)

( 7,276)

3,567,119

\$ 3,421,841

**Barry E. Gaudette, CPA, P.C.**

CERTIFIED PUBLIC ACCOUNTANT

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Traverse City, Michigan 49686  
(231) 946-8930  
Fax (231) 946-1377

**Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards**

Board of Housing Commissioners  
Belding Housing Commission  
Belding, Michigan

I have audited the financial statements of the business-type activities of the Belding Housing Commission, Michigan, (Housing Commission) as of and for the year ended June 30, 2005, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated November 7, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. I have noted other matters involving the internal control over financial reporting that I have reported to management of the Housing Commission in a separate letter dated November 7, 2005.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws,

Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards*  
Belding Housing Commission  
Page Two

***Compliance and Other Matters - Continued***

regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, I noted certain matters that I reported to management of the Housing Commission, in a separate letter dated November 7, 2005.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Barry E. Taulitt, CPA, PC*

November 7, 2005

BELDING HOUSING COMMISSION  
ADJUSTING JOURNAL ENTRIES  
MARCH 31, 2005

=====

<u>Account Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
-----------------------	---------------------	--------------	---------------

LOW RENT PROGRAM

-1-

1701	Dwelling equipment	\$ 19,113.00	
1705	Office equipment	5,605.00	
1704	Maintenance equipment		\$ 996.88
1709	Building improvements		23,721.12
	To adjust fixed asset accounts to agree to the depreciation schedule.		



BELDING HOUSING COMMISSION  
INDEPENDENT AUDITORS' REPORTS  
ON COMMUNICATIONS WITH THE  
AUDIT COMMITTEE/BOARD OF COMMISSIONERS  
AND  
MANAGEMENT ADVISORY COMMENTS

JUNE 30, 2005

BELDING HOUSING COMMISSION  
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JUNE 30, 2005

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**Barry E. Gaudette, CPA, P.C.**

CERTIFIED PUBLIC ACCOUNTANT

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**INDEPENDENT AUDITORS' REPORT ON  
COMMUNICATIONS WITH THE AUDIT COMMITTEE/  
BOARD OF COMMISSIONERS**

To the Board of Commissioners  
Belding Housing Commission

I have audited the financial statements of the Belding Housing Commission ("Housing Commission") as of and for the year ended June 30, 2005, and have issued my report, thereon, dated November 7, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

**Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America** - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

**Significant Accounting Policies** - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There was one audit adjusting journal entry and no controversial accounting issues.

**Management Judgments and Accounting Estimates** - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

**Other Information in Documents Containing Audited Financial Statements** - All the information included in the financial statements document has been audited and my responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE  
AUDIT COMMITTEE - CONTINUED**

**Audit Adjustments** - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustment, in my judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see page 6 showing the audit adjusting journal entry).

**Disagreements With Management** - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

**Consultations With Other Accountants** - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

**Major Issues Discussed With Management Prior to Retention** - There was no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

**Difficulties Encountered in Performing the Audit** - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

*Bary E. Standish, CPA, PC*

November 7, 2005

**Barry E. Gaudette, CPA, P.C.**  
CERTIFIED PUBLIC ACCOUNTANT

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**INDEPENDENT AUDITORS' REPORT ON  
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners  
Belding Housing Commission

I have audited the financial statements of the Belding Housing Commission ("Housing Commission") as of and for the year ended June 30, 2005, and have issued my report, thereon, dated November 7, 2005. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to me by the Housing Commission's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

*Barry E. Gaudette, CPA, P.C.*

November 7, 2005

BELDING HOUSING COMMISSION  
MANAGEMENT ADVISORY COMMENTS  
June 30, 2005  
=====

**Cash Collections**

Tenants currently can pay their rents by cash, check or money order.

I recommend that the Housing Commission consider not allowing payments by cash. This would provide another internal control in the collection of assets.

**Certificate of Deposits**

The Housing Commission has several Certificate of Deposits, but there is not a policy in place that requires two signatures to start or cash in a Certificate of Deposit.

I recommend that the Housing Commission adopt a resolution that would require two signatures to open up a certificate of deposit or to cash in a certificate of deposit. This policy would provide another internal control for the safe guarding of assets in the future if a Certificate of Deposit is purchased. Another control would be to have the bank type, "two signatures required to withdraw the CD", on the certificate of deposit.

**Capitalization Policy**

Currently the capitalization policy authorizes all personal property with a useful life of more than one year and having a value of \$25.00 or more be capitalized. This policy was last updated on August 15, 1989.

I recommend the Housing Commission update the capitalization policy with a value of not less than \$500.00 for nonexpendable equipment.

**Capitalizing Assets**

During my test of expenditures there were two expenditures that were not capitalized that have more than a one(1) year useful life. One was an invoice for the architect and the other an invoice for a boiler.

I recommend that if an expenditure has a useful life of more than one year than it should be capitalized, including architect services.

BELDING HOUSING COMMISSION  
MANAGEMENT ADVISORY COMMENTS (CONTINUED)

June 30, 2005

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**Credit Card Travel Advances**

During my test of expenditures of several credit card payments, I noticed that not all of the documentation was attached to support the payment, but may be attached on the next credit card payment.

I recommend that the payment for each credit card disbursement have the proper support documentation attached before payment is made.

BELDING HOUSING COMMISSION  
ADJUSTING JOURNAL ENTRIES  
June 30, 2005  
=====

<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
LOW RENT PROGRAM			
-1-			
1701	Dwelling equipment	\$ 19,113.00	
1705	Office equipment	5,605.00	
1704	Maintenance equipment		\$ 996.88
1709	Building improvements		23,721.12
	To adjust fixed asset accounts to agree to the depreciation schedule.		